

Message Text

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ACTION XMB-04

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FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC IMMEDIATE 838

C O N F I D E N T I A L MANAGUA 3797

FOR EXIMBANK FROM AMBASSADOR

E.O. 11652: GDS

TAGS: EGEN, ETRD, NU

SUBJECT: EXIMBANK FINANCING OF NICARAGUA PURCHASE OF U.S.
ROAD BUILDING EQUIPMENT

REF: (A) STATE 191752 (B) MANAGUA 1359 (C) MANAGUA03512

1. DURING LUNCHEON MEETING WITH PRESIDENT SOMOZA ON AUGUST 10, I INFORMED SOMOZA THAT IT WAS MY UNDERSTANDING THAT THE EXIMBANK WOULD GIVE FAVORABLE CONSIDERATION TO AN \$8 MILLION CREDIT FOR THE PURCHASE OF U.S. ROAD BUILDING EQUIPMENT. I ADDED THAT THIS \$8 MILLION CREDIT, IF APPROVED, COULD BE THE FIRST OF A SERIES OF CREDITS TO FINANCE GON PURCHASES OF ROAD BUILDING EQUIPMENT IN THE UNITED STATES. OVER THE NEXT SEVERAL YEARS, NICARAGUA MIGHT THUS ACQUIRE IN STAGES THE \$40 MILLION IN ROAD BUILDING EQUIPMENT IT FELT IT NEEDED. HOWEVER, EXIMBANK

EXPOSURE WAS LIMITED IN NICARAGUA, AS ELSEWHERE, AND A \$40 MILLION CREDIT WAS NOT POSSIBLE, NOR DID IT APPEAR FEASIBLE FROM THE VIEWPOINT OF NICARAGUA'S OWN INTERESTS. IT WAS OUR VIEW THAT A \$40 MILLION CONSOLIDATED CREDIT FOR ROAD EQUIPMENT EXCEEDED NICARAGUA'S CAPACITY TO UTILIZE AND MAINTAIN SUCH EQUIPMENT.

2. I ADDED THAT THE MINISTER OF PUBLIC WORKS HAD
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NOT YET SUBMITTED THE NECESSARY \$8 MILLION LOAN APPLICATION

TO THE EXIMBANK WHICH WAS HOLDING UP EXIMBANK CONSIDERATION OF THE LOAN. I NOTED THAT THE LOAN APPLICATION WOULD HAVE TO BE ACCOMPANIED BY ADEQUATE SUPPORTING DATA, INCLUDING A PLAN FOR AN ADEQUATE ROAD BUILDING EQUIPMENT TRAINING AND MAINTENANCE PROGRAM. IT WAS OUR UNDERSTANDING THAT BOSWELL ENGINEERING, A U.S. CONSULTING FIRM, HAD COMPLETED THE NECESSARY STUDY OF THE MAINTENANCE PROBLEM AND HAS PREPARED A PROGRAM FOR THE ESTABLISHMENT OF A MAINTENANCE FACILITY TO SERVICE THE NEW ROAD-BUILDING EQUIPMENT. FURTHERMORE, I SAID THAT I HAD BEEN INFORMED THAT THE GON IS SEEKING TO HIRE A SPECIALIST UNDER AN AID-FUNDED CONTRACT TO ADVISE ON THE IMPLEMENTATION OF A MAINTENANCE PROGRAM.

3. I CONCLUDED BY STATING THAT THE GON APPEARED TO BE IN A POSITION TO SUBMIT A LOAN APPLICATION TO THE EXIMBANK THAT WOULD RECEIVE THE BANK'S SERIOUS CONSIDERATION. IT WAS NOW UP TO THE MINISTRY OF PUBLIC WORKS TO SUBMIT THE APPLICATION. IN REPLY, THE PRESIDENT STATED THAT HE WAS PLEASED TO HEAR THE NEWS, AND THAT THE GON INTENDED TO PROCEED WITH A LOAN APPLICATION TO THE EXIMBANK.

4. TO SUM UP: (A) PRESIDENT SOMOZA IS STILL VERY MUCH INTERESTED IN PURCHASING U.S. EQUIPMENT; (B) SOMOZA HAS STATED THAT HIS GOVERNMENT WOULD PREPARE AND SUBMIT AN \$8 MILLION LOAN APPLICATION TO THE EXIMBANK; (C) THERE APPEARS TO BE REASONABLY GOOD PROSPECTS FOR A SERIES OF PURCHASES, PARTLY FINANCED BY EXIMBANK, AMOUNTING TO AS MUCH AS \$40 MILLION, WITH FOLLOW ON ORDERS IN THE FUTURE; (D) THERE IS CONSIDERABLE INTEREST AMONG U.S. EQUIPMENT SUPPLIERS WITH WHOM THE EMBASSY IS IN CONTACT TO SUPPLY THE DESIRED EQUIPMENT; (E) THERE MAY EXIST SOME RESIDUAL RESISTANCE BY THE MINISTER OF PUBLIC WORKS TO A SMALLER \$8 MILLION CREDIT, WHEN HE CLEARLY PREFERS A \$40 MILLION LOAN; AND (F) NON-U.S. EQUIPMENT SUPPLIERS ARE SHOWING A GROWING INTEREST IN PROVIDING THE EQUIPMENT AND FINANCING.

5. APROPOS OF LATTER POINT, LOCAL AND U.S. REPRESENTATIVES OF CATERPILLAR, INTERNATIONAL HARVESTER AND OTHER AMERICAN SUPPLIERS HAVE RECENTLY APPROACHED EMBASSY TO WARN OF MOUNTING BRAZILIAN AND JAPANESE BLANDISHMENTS FOR GON TO BUY MERCEDES-BENZ AND

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KOMATSU EQUIPMENT. THESE SOURCES INDICATE THAT BRAZILIAN-JAPANESE CONSORTIUM WILLING OFFER SUPPLIERS' CREDITS OF UP TO \$40 MILLION ON EASY TERMS. THESE REPORTS, IF TRUE, MIGHT EXPLAIN RELUCTANCE ON PART OF MINISTER OF PUBLIC WORKS TO PURSUE \$8 MILLION EXIM CREDIT.

6. ON AUGUST 11, REMY RENER, VICE MINISTER OF PUBLIC WORKS,

PHONED EMBASSY TO SAY THAT THE PRESIDENT HAD INSTRUCTED HIM TO PURSUE THE \$8 MILLION CREDIT FROM EXIMBANK. RENER ASKED ADVICE ON HOW TO PROCEED. EMBASSY INFORMED HIM THAT EXIMBANK WOULD PROBABLY WANT TO REVIEW HIS MINISTRY'S RECENTLY SIGNED MAINTENANCE PROGRAM CONTRACT AS PART OF THE REQUIRED LOAN APPLICATION. THE EMBASSY UNDERTOOK TO SEEK FURTHER GUIDANCE FROM EXIMBANK AS TO WHAT DOCUMENTATION THE LATTER MAY NEED.

7. GIVEN THIS PROMPT GON FOLLOW-UP TO MY DEMARCHE, AND IN ORDER TO AVOID THE LOSS OF FORWARD MOMENTUM ON THIS LOAN APPLICATION, IT IS OUR RECOMMENDATION THAT EXIMBANK CABLE PRESIDENT SOMOZA CONFIRMING ITS INTEREST IN CONSIDERING THE \$8 MILLION ROAD EQUIPMENT CREDIT, AND SPECIFYING WHAT DOCUMENTATION IS NEEDED TO SUPPORT THE APPLICATION. THE CABLE SHOULD BE SENT TO THE EMBASSY FOR TRANSMISSION TO THE PRESIDENT.
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